The State Council of Higher Education for Virginia

GUIDELINES FOR THE DEVELOPMENT OF PATENT AND COPYRIGHT POLICIES AND PROCEDURES BY STATE–SUPPORTED INSTITUTIONS OF HIGHER EDUCATION

Adopted by the
State Council of Higher Education

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1. Introduction

The 1986 session of the General Assembly amended the Code of Virginia by adding sections 23–4.3, 23–4.4, and 23–9.10:4. These sections require that each board of a state–supported institution of higher education, regardless of the level of the institution's research activity, adopt formal intellectual property policies consistent with guidelines developed by the State Council of Higher Education.

The State Council's guidelines follow. Together with the legislation, they provide a framework for the establishment of institutional policy, but they do not constitute a "policy" as such. Because the policy and practice at one institution may differ substantially from that at another, each institution must develop its own policy. Where consistent with these guidelines, institutions may incorporate their traditional practice into their policies.

The guidelines contain five major sections, beginning with this Introduction, followed by sections containing ***Definitions***, ***Policy Requirements, Transfers of Intellectual Property***, and ***Reporting Requirements***.

The ***Policy Requirements*** section is further divided into smaller sections. Each of these smaller sections contains two parts, a "guideline" setting forth the essential elements that an institution must address in its intellectual property policy, and a "commentary" that offers explanation and suggestions.

In brief, the guidelines say that an institution must define the types of intellectual properties it wants to own, if any; set up procedures for those persons covered by the policy to notify the institution when such properties have been created; set up procedures to protect and promote these properties; obtain the Governor's approval before transferring title to intellectual properties under certain circumstances; and make annual reports of the number of intellectual properties that the institution owns.

2. Definitions

Most of the following definitions explain words or phrases that are used in particular ways in these guidelines. Two terms, "assigned duty" and "significant use of general funds," are defined because the legislation requires the State Council to define them.

Throughout these guidelines, where it is appropriate, the singular form of a noun also includes the plural: "creator" also means "creators" if there are more than one, etc.

Assigned duty (Required by legislation for determining when transfers of intellectual property must be approved by the Governor.) — "Assigned duty" is narrower than "scope of employment, "and is an undertaking of a task or project as a result of a specific request or direction. A general obligation to do research, even if it results in a specific end product such as a vaccine, a published article, or a computer program, or to produce scholarly publications, is not a specific request or direction and hence is not an assigned duty. In contrast, an obligation to develop a particular vaccine or write a particular article or produce a particular computer program is a specific request or direction and is therefore an assigned duty.

Claims an interest — An institution "claims an interest" in intellectual property when it asserts a right in the property under its intellectual property policy. An institution may choose not to "claim an interest" in some forms of intellectual property that it does not want to own, even though it might legally be able to assert ownership.

Council or State Council — The State Council of Higher Education for Virginia.

Creator — Either an inventor in the context of patentable inventions, or an author in the context of copyrightable works of authorship.

2. Definitions (cont.)

Employee — Full– and part–time faculty; classified employees; administrative staff; and students who are paid for specific work by the institution. Students may be employees for some purposes and not for others. If they are paid as student assistants, for example, or given grants to do specific research, they will be employees. Students receiving general scholarship or stipend funds would not normally be considered employees.

Institution — Any state–supported institution of higher education.

Intellectual Property — Anything developed by anyone covered by an institution's intellectual property policy that fits one or more of the following categories:

- a potentially patentable machine, article of manufacture, composition of matter, process, or improvement in any of these; or
- an issued patent; or
- a legal right that inheres in a patent; or
- anything that is copyrightable (in legal terms, this means anything that is an original work of authorship, fixed in a tangible medium of expression).

Reporting Period — The period from July 1 of one year through June 30 of the following year.

Royalties Received — Any value received during the report–mg period, including cash payments as well as the market value of any property or services received, in consideration for a transfer of any intellectual property in which an institution claims an interest.

2. Definitions (cont.)

Significant Use of General Funds (Required by legislation for determining when transfers of intellectual property must be approved by the Governor.) — This phrase, and the phrase "developed wholly or significantly through the use of general funds," mean that general funds provided $10,000 or more of the identifiable resources used to develop a particular intellectual property. A reasonable cost should be assigned to those resources for which a cost figure is not readily available, such as salary, support staff, and other equipment and resources dedicated to the creator's efforts. Resources such as libraries that are available to employees generally should not be counted in the assessment of the use of general funds.

State Council — See "Council"

3. Policy Requirements

The following guidelines address the essential elements to be included in an institution's intellectual property policy, but they do not prevent an institution from including other elements as well. Institutions should, if possible, arrange their policies to follow the number and order of topics given in the following guidelines. For policies that are already written and follow a different presentation, institutions should annotate their policies to show where and how each of the following guidelines has been addressed.

Institutions must have their intellectual property policies adopted by their boards of visitors, and must submit their policies and any future revisions to the Council.

3.1 Applicability of the Policy

Guideline

The policy should say to whom it applies. It must apply to employees; visiting faculty and researchers; and those employees and visitors covered by sponsored program agreements or other contractual arrangements.

Commentary

An institution's policy need not treat all persons covered by the policy the same way. Students or visiting faculty might well be treated differently from permanent faculty, for example.

3.2 Ownership of Intellectual Property

Guideline

Each institution should specify the types of intellectual properties in which it will claim an interest and specify the procedures for claiming or disclaiming the interest.

Commentary

Initial ownership of intellectual property is governed by a mixture of state law and federal patent and copyright laws. These laws, and the cases that have interpreted them, establish certain rights for inventors and authors, though very few court cases have dealt with the university or college setting.

Patents. The initial right to apply for a patent belongs to the inventor. Common law imposes an obligation on any inventor employed specifically for the purpose of inventing to transfer patent rights to the employer, but few if any university employees are hired specifically to invent. Those employees who are not hired to invent own the right to apply for and hold the patents to their inventions. If an institution wants to change that outcome, it must do so either in a contractual agreement reached before the employee accepts employment, or by a notice to employees that applies to all inventions conceived after the date of the notice. Notice can take the form of the institution's intellectual property policy.

Copyrights. The 1976 Copyright Act has preempted the common law of copyright ownership. The 1976 Act says that in an employment situation, when an employee creates something "within the scope of employment," the employer is the owner of the resulting copyright. Though no court case has settled the matter, this provision of the copyright act

3.2 Ownership of Intellectual Property (cont.)

seems to say that most of what an institution's employees will create, if it is copyrightable at all, will belong to the institution.

Universities have traditionally relied, however, on an understanding that faculty members retain the copyright to their works. In the absence of an intellectual property policy, that traditional understanding could be reversed. To ensure that faculty members retain copyrights under current law, an institution can: (1) put a clause in employment contracts to that effect and have the clause signed by both a responsible institutional official and the employee; or (2) periodically transfer copyright rights to its employees by means of an assignment in writing, also signed by a responsible institutional official; or (3) provide in its policy that faculty members will own the copyright to their works, put the policy in the faculty handbook or some other institutional document, and refer to the handbook in employment contracts. Similar mechanisms could be designed to result in the institution and the employee becoming joint owners of employee–created works.

If. an institution wants to retain sole ownership of em–ployee–created works, it should bear in mind that ownership means the institution, not the faculty member, will have to give copyright permission for faculty publications, performances, displays, etc.

In defining ownership rights in intellectual property, institutions should remember to include intellectual proper–ties created under outside grants or other funding arrange–ments. Often the terms of these grants will provide for ownership rights, and the policy should not conflict with that possibility.

3.3 Administrative Organization

Guideline

The policy should specify the official responsible for administration of the policy, and should vest that official with the necessary authority to carry out the responsibilities under the policy.

Commentary

An advisory or oversight committee to guide and assist the policy administrator is recommended. The committee could include both administrators and faculty or other professional employees. Rotating membership with staggered terms can provide continuity and "institutional memory."

3.4 Procedures for Notification

Guideline

The policy should require that creators notify the policy administrator of all intellectual property in which the institution claims an interest and should specify the information to be included in the notification.

Commentary

Notifications should be reviewed by the institution before being made available to any other party. Confidentiality and promptness in the review process can help to preserve patent rights, as discussed in the next section on protection and commercialization of intellectual properties.

Forms should be available to help employees in preparing a notification of the creation of intellectual property. The notification should describe the intellectual property, identify all creators, and identify the source of funding that has supported creation of the intellectual property. When more than one person created the intellectual property, the notification should specify the percentage that each claims in any royalties accruing to them resulting from the property. Notification should be made as promptly as possible. When an institution does not claim an interest in an intellectual property about which it is notified, it should so advise the creator in writing.

3.5 Protection and Commercialization

Guideline

The policy should specify the types of intellectual property that the institution plans to commercialize, if any, and include the procedures the institution will use to evaluate the property for commercial potential and to preserve its legal rights to the property.

Commentary

Institutions may decide to commercialize all intellectual properties they can, to commercialize no intellectual properties, or to decide which properties they will commercialize on a case–by–case basis. Patents are especially costly to obtain, and should almost always be considered on a case–by–case basis. The following commentary is directed to institutions that want to commercialize at least some intellectual properties.

Patents. The policy administrator should keep employee notifications confidential, determine rapidly if an invention should be patented, and initiate patent applications in a timely manner. An employee notification may describe work on an invention that is not yet complete, or it may describe a completed invention. If the notification were to become known to anyone other than those individuals in the institution who must review it or keep it confidential, that knowledge by others might enable them to complete an incomplete invention first, or prevent the institution itself from getting a patent because the invention would be legally considered already known to the public.

Additionally, knowledge by others of the details of an invention starts a one–year time period running. The institution must apply for a patent before the end of that period, or it cannot patent the invention at all. Knowledge by others can also lead to their applying for

3.5 Protection and Commercialization (cont.)

competing patents and to disputes over who invented the invention first—even if the institution applies for a patent within one year. Finally, disclosure of an invention to others can prevent the granting of a foreign patent no matter how soon the institution applies for a patent after the disclosure.

For a number of reasons, then, institutions should never disclose the details of a notification to anyone who does not have a need to know those details, or to anyone who is not under an obligation of confidentiality.

Disclosures are particularly likely to result from scholarly publications or conference presentations. The policy administrator may want to work with employees to postpone publication or presentation of the details of an invention, while allowing publication of basic scientific discoveries, which are not in themselves patentable.

Because patent review is highly technical, few institutions can maintain the entire operation in–house. One approach is to submit each employee invention to an external agency specializing in patent review and commercialization, such as the Center for Innovative Technology, Research Corporation, University Patents, or similar organizations. Agencies like these can evaluate inventions for patentability and commercial potential, and obtain patents, license them, manage the royalties, and protect the patents from in–fringement.

Additionally, an institution could set up an intellectual property foundation, a separate corporation chartered to benefit the institution. Intellectual property foundations may be

3.5 Protection and Commercialization (cont.)

especially beneficial because some activities, such as market research and legal services, are needed quickly.

To make the point clear to employees, institutions may be wise to state in the policy if the services of a foundation or patent management organization are to be allowed.

Copyrights. Copyright protection applies to any work of authorship as soon as it is written or otherwise recorded. When a work is published, it should contain a copyright notice: a small "c" in a circle or the word "copyright" or the abbreviation "copr.", the year of publication, and the name of the copyright owner.

Registration of copyright is not generally a condition of copyright protection, but it is a prerequisite to an in–fringement suit. Registration does offer the advantages of public record of the copyright claim, ***prima facie*** evidence of the validity of the copyright, and availability of a broader range of remedies in infringement suits.

Registration can occur at any time, but requires a small fee (currently $10 for each work registered) and ad–ministrative time. Thus the decision of whether, and when, to register c6pyrights is a cost–benefit decision. As a practice, institutions with active intellectual property systems seldom register a copyright until a high commercial value is perceived for a work. For example, a major com–puter program or a semi–conductor chip design might be registered immediately, though a newsletter might never be registered.

3.6 Royalty Provisions

Guideline

The policy should specify whether and how royalties received from intellectual properties will be shared between the institution and the creator, and should specify the method of calculating and distributing the royalties.

Because two or more employees may claim to be the creators of intellectual property, the policy should require that joint creators agree at the time of their notification on the fraction that each will share in any royalties.

The policy should specify what the institution will do with its share of any royalties received. If the creation of an intellectual property was supported by money from the general fund earmarked for the purpose by the General Assembly or the institution, royalties from that property should be used to reimburse the State for the cost of creation.

Commentary

The term "Royalties" is defined in the ***Definitions*** section to include non–cash payments as well as cash. The policy should therefore make provision for the sharing of royalties that are earned in the form of stocks, bonds, real property, etc.

Simplicity and certainty in royalty arrangements will benefit everyone. Institutions may therefore want to con–sider carefully whether royalties to creators should be based on net revenues rather than gross revenues. In theory a percentage of net revenues makes sense: that way the in–stitution recoups its expenses before the creator receives any money. In practice, some costs are hard to determine, such as the portion of an employee's salary that went into the creation of a particular form of intellectual property, or the portion of the

3.6 Royalty Provisions (cont.)

employee's use of office space and materials. Determinations that are hard to make are likely to lead to disputes between the institution and the employee.

On the other hand, production costs, advertising costs, or the costs of contracting with a patent management firm are likely to be easily ascertainable. Institutions may want to define "net revenues" as the difference between total revenues and these easily ascertainable costs, rather than all costs.

It may be still simpler to base royalties on a percent–age of gross revenues, even if a lower percentage is used than would have been used with net revenues. If the institution prefers not to pay anything to creators until the institution has received a share, it can provide for setting aside a fixed amount to be kept by the institution, rather than an amount based on the use of general funds, before payments are made to creators. For example, the institution could have a policy that it keeps the first $1000 of royalties, then pays the creator some percentage of the amount greater than that. A sliding scale is also possible: the institution and the creator receive different percentages at different "steps" in the royalty payments. For example, a certain percentage distribution of royalties could be set up for royalties from $0 to $1000, another percentage distribution for royalties from $1001 to $5000, and so on.

3.7 Dispute Resolution

Guideline

The policy should provide a means for resolving disputes between the institution and those persons covered by the policy, and for a final administrative appeal within the institution of the resolution.

Commentary

Disputes can be expected to arise over anything within the policy, including ownership, royalties, and publication clearance. The policy administrator or a committee formed for the purpose can be responsible for dispute resolution.

Resolution of a dispute may be most easily accepted if the decision is made with the collective judgment of a group independent of the policy administrator. A committee that advises the policy administrator could also serve as the group to resolve disputes because that group will acquire expertise on the subject of patents and copyrights, and can be composed of a broad spectrum of interests within the institution.

4. Transfers of Intellectual Property

Except when the Governor's prior written approval is required, an institution's governing board, including the State Board for Community Colleges, may transfer any intellectual property in which an institution claims an interest.

The Governor's prior written approval is required for transfers of title to patents and copyrights that were

A. developed wholly or significantly through the use of state general funds, by an employee of the institution acting within the scope of his assigned duties; or

B. developed wholly or significantly through the use of state general funds, and are to be transferred to an entity other than the following:

- the Innovative Technology Authority, or
- an entity whose purpose is to manage intellectual properties on behalf of nonprofit institutions, or
- an entity whose purpose is to benefit the transferring institution.

When prior written approval is required, an institution should send a description of the intellectual property and the proposed transaction to the Council. Within thirty days, the Council will recommend action to the Governor, including any conditions the Council thinks should be attached to the proposed transfer. The Governor also may attach conditions to the transfer.

4. Transfers of Intellectual Property (cont.)

The specification of what transfers need the Governor's approval is a paraphrase of the state statute, Va. Code 23–4.4 (1986). Note that approval is not required for the grant of a license to use an intellectual property, but only when actual title is to be transferred. The statute also requires the Council to define the conditions under which a "significant use of general funds" occurs, and the circumstances constituting an "assigned duty," for the purpose of reporting transfers. These definitions appear in the ***Definitions*** section, under "significant use of general funds," and "assigned duty."

Institutions need not claim an interest in all intellectual properties in which they might legally be able to assert an interest. The requirements for approval of transfers of intellectual properties, and the following commentary, refer to intellectual properties in which an institution does claim an interest.

Most intellectual properties at institutions will be developed by employees, but not all of those will be developed within the scope of assigned duties. When an institution's employees create intellectual property on their own initiative, or as part of their general obligation of scholarship, the institution may transfer title to the property without approval if the transfer is to one of the entities noted under "B" above.

On the other hand, when an institution specifically directs an employee to develop a particular intellectual property, the development becomes an assigned duty. If the development is done with significant use of state funds, the institution must obtain the Governor's approval before transferring the property, whether or not the transferee is one of the entities listed under "B."

4. Transfers of Intellectual Property (cont.)

Note that an employment agreement allowing certain intellectual properties to be retained by an employee from the moment of their creation is not a "transfer" to the employee, and hence need not be reported. An intellectual property that is owned by the institution and later transferred to an employee is a "transfer," however, and should be reported if it meets the requirements of "A" or "B" above.

The requirement for approval of certain transfers refers to transfers by the institution itself, not to later transfers made by anyone other than the institution.

***NOTE: This language below was deleted pursuant to chapter 590, Acts of Assembly, page 1081.**

~~5. Reporting Requirements~~

~~The General Assembly has directed the State Council of Higher Education, in cooperation with the Innovative Technology Authority, to collect and report certain information about intellectual property. So that the Council may comply with this requirement, each institution must annually collect and report the information for the preceding fiscal year. An institutional official should be designated as the person responsible for compiling and submitting the report.~~

~~The Council will annually set a date by which reports on intellectual property are to be received by the Council. Each annual report should include the following information:~~

1. ~~The name of the institution.~~
2. ~~The name of the official submitting the report.~~
3. ~~The number of intellectual properties in which the institution claims an interest under its intellectual property policy. The number should be divided into patentable subject matter and copyrightable subject matter.~~
4. ~~The name of all transferees to whom the institution has transferred any interests, including licenses, in intellectual properties.~~
5. ~~If the institution is not able publicly to identify the transferee of any intellectual property, the institution should identify the particulars of the transfer as well as the reasons why such information should not be reported. The Council will determine whether to report the information to the legislature.~~
6. ~~The total royalties received by the institution during the reporting period.~~

~~The requirement to report the name of any transferee of intellectual property refers to transfers by the institution itself, not to later transfers made by anyone other than the institution.~~